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## Introduction

Taoiseach Leo Varadkar commented on Budget 2018, "*It is another small sustainable step in the right direction for our country*". (O'Connor, 2017). But is this the case? Over the next few pages we will investigate the effects of our most recent budget on the individual family, indigenous Irish business and foreign direct investment. We will also propose the introduction of another tax bracket to alleviate the tax burden placed on middle income earners.

## One key measure that impacted the individual/family

One key measure that impacted the individual was the reduction of the Universal Social Charge. Prior to Budget 2018 Fianna Fáil's finance spokesman Michael McGrath promised a reduction in USC and stated that, *"it is important for people to see net pay moving in the right general direction, albeit at a very gentle pace next week [in the budget]"* (McGee, 2017). This was an attempt to reassure the public that USC continues to be reduced.
The reductions to USC are synopsised as follows:

**Standard Rates of USC**

| USC Thresholds | | | |
|---|---|---|---|
| **2017** | **Rate** | **2018** | **Rate** |
| Income up to €12,012.00 | 0.5% | Income up to €12,012.00 | 0.5% |
| Income from €12,012.01 to €18,772.00 | 2.5% | Income from €12,012.01 to **€19,372.00** | **2%** |
| Income from €18,772.01 to €70,044.00 | 5% | Income from **€19,372.01** to €70,044.00 | **4.75%** |
| Income above €70,044.00 | 8% | Income above €70,044.00 | 8% |

**Reduced Rates of USC**

| USC Thresholds | | | |
|---|---|---|---|
| Individuals aged 70 years or over whose aggregate income for the year is €60,000 or less.<br><br>Individuals (aged under 70) who hold a full medical card whose aggregate income for the year is €60,000 or less. | | | |
| **2017** | **Rate** | **2018** | **Rate** |
| Income up to €12,012.00 | 0.5% | Income up to €12,012.00 | 0.5% |
| Income above €12,012.00 | 2.5% | Income above €12,012.00 | **2%** |

(Revenue, 2017)

The lowest rate of USC remains at 0.5%. The threshold of the second rate has increased by €600.00 which is a significantly larger increase than the previous year of €102.00. The rate

of USC has also been reduced from 2.5% to 2%. The rate of USC of the third band has also been reduced from 5% to 4.75%. The highest rate of USC of 8% remains unchanged as it has done in previous years. In addition, the rate paid by individuals aged 70 years and over and medical card holders has been reduced by 0.5%.

These reductions have been welcomed by the Irish Tax Institute as they have envisaged for a long period of time that the Irish tax system would become more competitive in a global context. The Institute's president David Fennell has stated that, *"we can't lose sight of the longer term goal – the fact remains there is an income tax rate of 52% for earners over €70,044, which is hindering us in the global race for talent"* (Fennell, 2017).

However, Labour TD Joan Burton has expressed a concern that it displays a similar economic style applied by Charlie McCreevy during the 'celtic tiger' (Ó Cionnaith, 2017). These fears may be well founded considering the fact that the Irish economy is still recovering from an economic crash. USC generates around €4 billion each year for the government (Newsdesk, 2017). Dr Declan Jordan, who is a senior lecturer in economics at Cork University Business School, explains how he would have preferred the tax cuts to wait a few years and for the revenue to be used as a buffer against any possible risks to our continued economic recovery (Jordan, 2017).

While this can be seen as a positive measure by most that will benefit all taxpayers, it is skewed more favourably towards low income earners. For example, an individual earning an annual salary of €19,000.00 will pay USC of €380.00 compared to an individual earning €69,000.00 who will pay USC of €3,277.50. This could further be compared to an individual earning an annual salary of €71,000 who will be subject to USC of 8%, which remains unchanged from the previous year. This amounts to USC of €5,680.00. This continues the trend of prior years in which high income earners are required to shoulder a higher percentage of the tax burden. This is a fact that will have to be considered for future budgets.

**<u>One key measure that impacted Irish Indigenous Business</u>**

The 2018 Budget offered little in the way of tax breaks to Irish businesses. However, as its centrepiece, it introduced the New Key Employment Engagement Program (KEEP) scheme. The primary aim is to help small and medium sized enterprises (SME's) attract and retain key employees. Share options granted to employees between the 1st January 2018 to 31st December 2023 will be exempt from income tax, USC and PRSI, but will remain liable to capital gains tax (Citizens Information, 2017)

There are mixed reviews from the financial world as to how beneficial this scheme will be and whether it will impact on only a minority of employee's and Irish businesses. Danny McCoy, IBEC CEO expressed his opinion on the recent budget describing it as *"A positive for business, employment and the wider economy."*(IBEC, 2017).

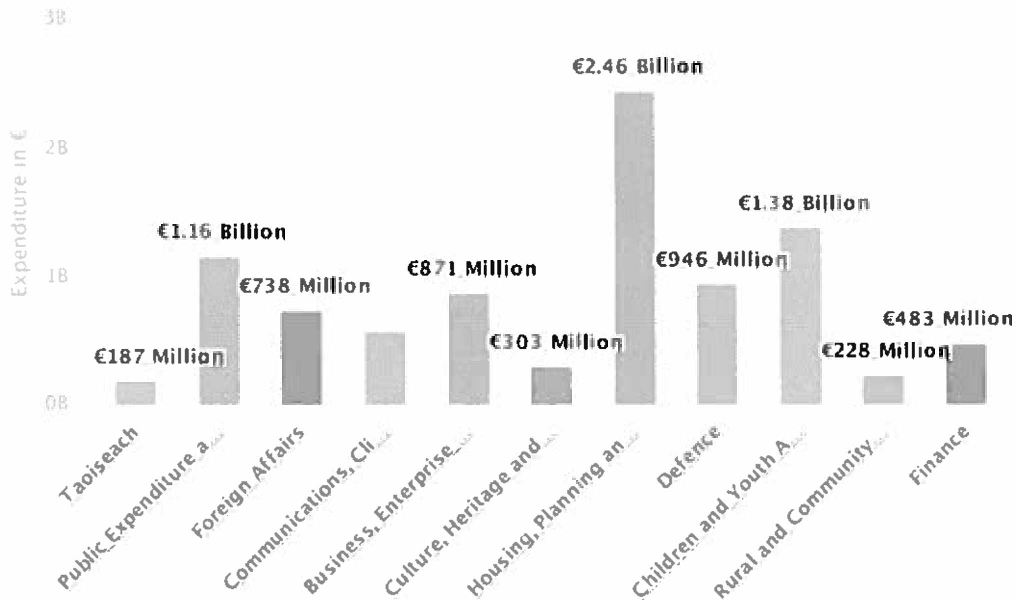
According to Paschal Donohue, Minister for Finance, this initiative would *"support SMEs in their efforts to attract and retain key employees in a competitive international labour market, by providing for an advantageous tax treatment on share options"*. (Paul, 2017). Daryl Hanberry, a tax partner at Deloitte, welcomed the introduction of the Keep scheme, arguing it would provide a *"tax-effective way of remunerating employees"* (Hanberry, 2017).The main advantage to employees is that the tax is capped at 33% and it is only payable when the shares are sold (Paul, 2017).

On a more negative note, this scheme is not applicable to multi-national companies and only applies to options which are offered within the specified time (Caulfield, 2017). But what about the existing shares that employees hold? As one commentator stated the KEEP scheme was *"dead on arrival"* (Caulfield, 2017). No action has been taken to address the current taxation of share options which are taxed at the time of exercise.

There are many restrictions connected to this new scheme, *"A Company must remain small throughout the period that an option is held or its staff will lose the benefit of the KEEP scheme"* (Caulfield, 2017).

Companies will frequently be forced to maintain two separate option schemes. It will also only be possible to grant KEEP options to full time employees (Caulfield, 2017).

The Budget 2018 allocation to Business and Enterprises is miniscule in comparison to some of its counterparts. Budget allocation in 2016 was €831 million, in 2017 €857 million and in 2018 €871 million. An increase of a mere €40 million in the space of three years. In 2018 alone, the Department of Defence was allocated €946 million(Whereyourmoneygoes.gov.ie). These figures show that Business, Enterprise and Innovation are on the lower scale of the Irish Government's priorities.




(Whereyourmoneygoes.gov.ie)

SME's account for over 99.8% of the enterprise economy, employing almost 69.1% of the workforce (CSO, 2017).

Despite its flaws, this scheme is a step in the right direction. A crucial key to SME's is the retention of key employees. Any plans to support our indigenous sector should be met with encouragement. "*There is a global war for talent and we welcome any move to encourage skilled workers to remain and thrive in Ireland*" (Fennell, 2017).

**<u>One key measure that impacted foreign investment into Ireland.</u>**

A key measure introduced in the Budget 2018 that impacted foreign Investment into Ireland is the re-introduction of the 80% income cap for Intellectual Property (IP) capital allowances claims. This re-introduction means that companies will now benefit from a minimum of 20% of the firm's Intellectual Property trading profits being subject to tax each year and therefore any excess capital allowances above this amount will now be able to be carried forward for use in future tax years (PWC, 2017).

This measure introduced by the Minister for Finance, Paschal Donohoe, was mainly implemented due to the importance of it in order to *"help support the sustainability of Irish corporation tax receipts"* (PWC, 2017). Under the recommendation of the head of the Fiscal Advisory Council, Seamus Coffey, the re-introduction of the cap to 80% is expected to generate approximately €150 million for the economy whilst also ensuring *"some smoothing of corporation tax revenues over time"* (Independent, 2017).

This introduction has a number of possible impacts for Foreign Investment into Ireland as it can, not only increase the implications of corporation tax that will subsequently have to be paid by the company, but also in turn, decrease profit levels of the organisation initially. When, in 2015, this previously upheld cap of 80% was removed, Ireland became a location with high incentives for companies to locate their intellectual property operations, due primarily to the reduced effective rate of corporation tax on intellectual property related income (PWC, 2015). This capital allowance enabled companies to write off an element of their tax in line with the depreciation charge for accounting purposes. However, the return of this cap to 80% in turn reduces this element of tax that can be written off and therefore, increases the proportion of corporation tax that must be paid on profits generated from intellectual property.

The conditions underlying this re-introduction by the Minister for Finance in the budget state that the new cap will only impact upon Intellectual Property moved from the date of introduction, thus any IP transferred before this date will be dealt with under the previous stipulations, meaning there will be no restriction imposed upon assets transferred in previous periods. Although the re-introduction of the cap will ultimately slow the rate at which *"multinationals are able to write off investment in moving intellectual property (IP) assets such as copyrights, patents and trademarks to Ireland"* (Taylor, 2017) and may initially increase the companies tax liability, *"multinationals will still be able to write off the full cost over time"* (Taylor, 2017), thus, returning the firm to a similar position prior to the re-introduction of this cap.

Overall, although the re-introduction of the cap may negatively impact new Foreign Direct Investment(FDI) into Ireland, it will not profoundly impact upon foreign companies

already existing within the economy. Despite the initial increases in taxes faced by the company, the facilitation of transfers for capital allowances will still enable the companies to write-off the full amount of the costs associated with their intellectual property, merely over an increased time frame, thus increasing the tax income of the Irish Economy.

**A measure the Government should have introduced.**

From following the news and current affairs in relation to the tax implications of the previous years' budgets, it is clear to see that there has been a "squeeze" on the middle-income

earners in Ireland. Some of the recent data that has been published by the Revenue Commission suggests that 26% of tax payers within Ireland pay 83% of the tax for the country (Ó Cionnaith, 2017). This is a huge contribution from a relatively small number of working people. If we look at the cannons of taxation, it is important to note that one of these cannons is equity. This means that the tax should be fair. In our opinion, the pressure that is placed on the middle-income earners in Ireland is not entirely fair, as they are the ones that are paying the most for the subsidisation of lower income benefits in Ireland.

We have given some thought to a lot of different areas where we believed tax changes and rate changes would have been of benefit to all levels of society in Ireland. We feel as though the Minister for Finance should have implemented a measure that eases the pressures on the middle-income earners in Ireland in his 2018 budget, by creating a third income band for middle to low income earners. Currently the 20% rate of income tax is aimed at the first €33,800 for single people ad €42,800-€67,600 for married couples. After these amounts have been taxed the person is then taxed at the higher rate of tax, 40%. We feel as though it would be highly beneficial for middle to low income earners to have an additional tax band, under the 40% rate. This would effectively mean that the person would have less of their income taxed at the 40% rate, and it would work on the same way of calculation as the USC. This would work if we calculate the first €33,800 at 20%, the next, for example,€10,000 at 25% and the remainder at 40% rate.

This, in our opinion is the biggest and most important measure that the government should have aimed to include in their 2018 budget. We believe that this would have taken a lot of pressure off the middle income earners in Ireland who are burdened with a huge proportion of taxation in Ireland every year. We appreciate that this would make the calculation of personal tax slightly more difficult but with some changes to the current system we feel as though this would benefit more than hinder the collection of tax in Ireland. There would be an increased amount of money available to be spent in the economy as people would have a higher amount of disposable income. It would also help the struggling mortgage payers free up some additional income if they are finding it difficult paying their mortgage at the current rates, especially with the current tracker mortgage issues that have come to light recently.

**Conclusion**

To conclude, Budget 2018 aimed to alleviate pressure on low income earners through reductions in USC, attract and retain key employees through the KEEP scheme and re-introduce the 80% income cap for Intellectual Property (IP) capital allowances claims which

permits companies to retain 20% of profits before tax. However, there was no attempt made to reduce the burden placed on middle-income earners which is why we feel our proposal is something to be considered for future budgets.

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